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Deputy Director (Administration)

6 November 1951

Comptroller

Progress Report

1. CONCEPT

The basic function of the Finance Office is to render effective, timely, and secure financial support for agency operations and activities. Our concept of the nature and scope of this task is outlined below:

a. Budgeting

Prepare the agency budget in such form as to focus attention on the general character and relative importance of activities and operations in terms of funds requirements, and administer the budget through a system of allotments and reports to assure that funds are apportioned and used in support of approved operational programs and objectives. We conceive the agency budget as being an instrument of management consisting of the processes by which work programs and operational objectives are translated into financial terms, analyzed, evaluated and determinations made and reflected in the form of budget estimates; the necessary funds justified and obtained from the granting authority and allotted or distributed to the proper units; adequate measures maintained for accountability and expenditure control and for assuring at all times that the funds utilized for the execution of authorized programs of work are being expended in the most effective and economical manner possible, and that the results are analyzed, measured, evaluated, and reported upon in an effective manner.

b. Disbursing and Monetary Activities

Procure, maintain custody of, and disburse official funds required to support agency activities in such manner as to insure the security of the operation, the financial integrity of individuals, and prevent the physical loss, destruction, or theft of funds. Security requires the development and application of special methods and techniques in connection with most of our monetary and exchange activities.

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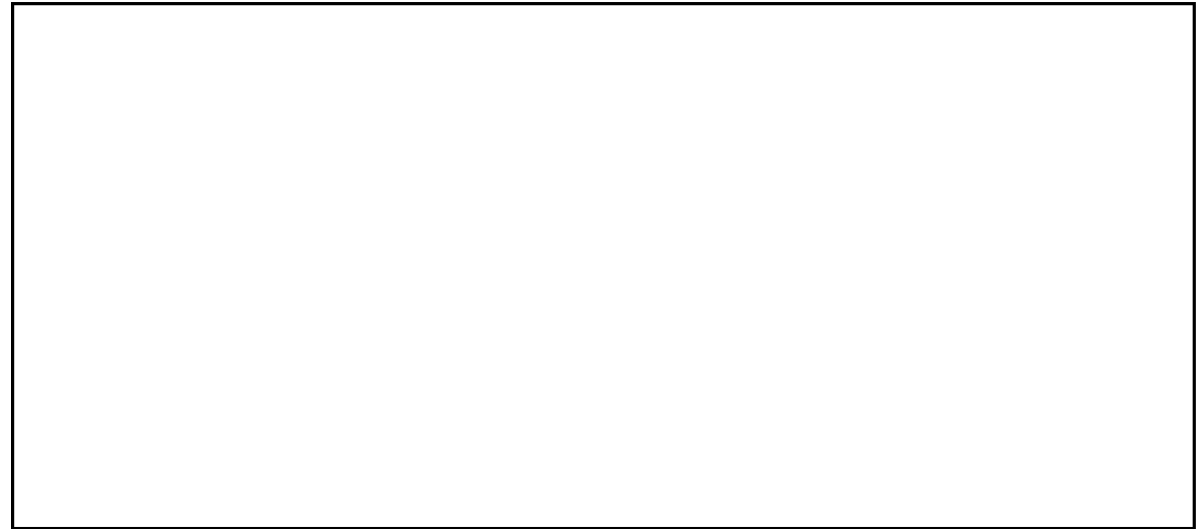
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c. Accounting

Develop sound accounting practices and procedures which fix responsibility for the reporting and accounting for expenditures to the degree compatible with security and operational circumstances, and maintain such accounts and records as may be required to provide a basis for comprehensive financial reports to the Director and operating officials. The traditional accounting concepts of government and business is based upon various systems of checks and balances, and such systems are dependent upon basic factual documents, usually of a formal or standardized type. In this agency however, the security and operational circumstances attending the expenditure of funds for intelligence operations demands that balanced recognition be given to the need for a flexible basis of accounting in the light of varying types of operations and security conditions. It is therefore important that the agency accounting procedures consist of "Rules of Reason" instead of "Rules of Thumb" and that stress be placed upon principals and criteria instead of inflexible regulations. Our general concept of the requirements for basic accounting is to get properly itemized vouchers or receipts wherever, and to the extent that, security and operating conditions permit, and in the instances where security does not permit to require a positive statement from the individual expending the funds that they were expended for a proper official purpose in connection with a specific project or activity. The need for flexibility in accounting procedures is apparent when viewed in the light of the fact that more than [redacted] major projects, and more than [redacted] smaller projects and individuals have custody and physical possession of official funds which they are authorized to expend for official purposes.

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d. Audit and Inspection

Conduct such examinations and audits of vouchers, accounts, and records, and such site audits and inspections of financial activities at installations or field locations as may be necessary to assure the administrative competence and fidelity of individuals in connection with the expenditure of funds for proper official purposes in accordance with established agency policies. The complexity and geographical dispersion of our financial transactions, and the degree of flexibility and tolerance which must be observed, for security reasons, in connection with our accounting requirements, presents opportunities for indolent and unethical financial practices to flourish behind a screen of "security". Our observation of the financial case history of covert operations in this and the predecessor agency leads us to believe that abusive or unethical financial practices will not be followed by the majority of our employees even where there is no restraining influence in the form of an audit and inspection program. However, it appears that the instances of abuse do increase where there is a lack of adequate financial audit and inspection. It also appears that there is a direct relationship between financial objectivity and integrity and operational objectivity and security, and that financial abuses tend to pervert or distort operational objectivity and results in unproductive and abortive operations. Another aspect which must be considered is that the funds we use are public funds and it is a fundamental concept in the United States that there must be an accounting for the "peoples" money. The Congress has, in the interest of national security, authorized the agency to account for funds by a certificate from the Director to the effect that the funds have been properly spent for the public benefit. It appears obvious that any repeated instances of flagrant abuse or laxity in connection with this discretionary responsibility would serve to undermine the confidence of the Congress and the public, in the agency, which in all likelihood would result in a decrease or curtailment in the use of public funds. Our concept of the Audit and Inspection function is that it should be the instrument used to deter, check, or prevent such abusive practices and insure that a high standard of individual integrity and official objectivity is observed in the use of official funds.

2. WHAT WE HAVE DONE

October 1950 to the present was a period of rapid growth of agency operations and activities. During this period agency staff employees were increased [REDACTED]

[REDACTED] and the dollar volume of expenditure of appropriated funds has more than doubled. The number of operational projects has not only increased in volume, but also in complexity

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from the standpoint of financial support. Many of the new programs undertaken by the agency involved the development of new principals, and techniques and in other respects placed heavy demands upon the time of finance employees in rendering the desired financial support. The Finance Office has been handicapped by the lack of adequate staff to deal with this increased business at the Headquarters level and this problem has been further aggravated by the necessity of having to dispatch experienced personnel as Finance Officers for field installations and the training of new employees to replace them. The inexperience of many of the new operational officers with respect to the financial and security concepts necessary in supporting operations has also added materially to the task of rendering effective financial support. Despite these handicaps we have absorbed this increased work load and have met the specific positive requirements of the operating offices for financial support. We therefore feel that our most significant accomplishment during this period has been the day to day financial services and support rendered the operating offices in connection with the launching of new projects and activities. Other accomplishments and activities which we think worthy of mentioning are as follows:

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3. WHAT WE NEED TO DO

In view of the agency practice of activating new projects to exploit targets of opportunity whenever fortuitous circumstances indicate a possibility of success, it is difficult to visualize the exact nature and scope of the financial support which may be required for those as yet unborn projects. However, it is clear that we should expand our finance activities to provide for reserve or stand-by personnel and facilities so that quick and effective financial support may be rendered such projects as they are activated. As to improvements in our financial systems and procedures we believe this to be essentially an evolutionary process consisting of a molding of systems and procedures to the particular needs involved in the light of accumulated experience, instead of drastic changes which overtax existing facilities or jeopardize the security of operations. In this respect we feel that limited improvements in the right direction, even though they fall short of ultimate objectives, will prove more effective than "master" plans for improvement which cannot be adequately implemented. Following is a list of objectives indicating the direction in which we should proceed to effect needed improvements:

- a. Recruit and train additional staff to meet the demands for service occasioned by agency expansion, with special emphasis upon the training and dispatch of Finance Officers to render finance service and support for major field installations and projects.
- b. Strengthen our audit and inspection program, especially with respect to site audits and inspections of contracts, proprietary projects, and major field installations.
- c. Develop a more comprehensive and flexible accounting and reporting system for the agency.
- d. Revise and reissue the Confidential Funds Regulations in a form in which they can be used and referred to more effectively.
- e. Continue efforts to broaden the scope and improve the security technique employed in budgetary, monetary, and disbursing activities.

E.R. SAUNDERS

Attachment

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